Capital Improvements Plan

FY 2006 - FY 2011

Introduction

The District of Columbia faces a wide variety of infrastructure needs, placing great demands on its Capital Improvements Plan (CIP). Schools, roads and bridges, parks and recreation centers, Metrobus and Metrorail, and information technology all require considerable investments so the District can maintain and improve the quality of life for its residents, visitors, and employees.

However, the District faces twin constraints on its ability to increase these investments. The first is a limit on borrowing ability. The District's current debt per capita is the highest of any city in America. This is partly due to the District's unique status in providing state, county, and municipal services, and concomitant borrowing needs for those services. Debt per capita cannot be allowed to grow too fast, both because debt service costs affect the operating budget and because too high a level might reverse the District's recent successes in having the rating of the District's debt upgraded by Wall Street rating agencies.

The second constraint is a deficit in the General Capital Improvements fund. In recent years, capital expenditures have exceeded borrowings, as District agencies have accelerated expenditures on capital projects while borrowings have been delayed until funds were needed for expenditures. These actions reduced the District's debt service costs, but they also led to deterioration of the capital fund balance position. The fund currently has a deficit of $250 million. Like debt per capita, the balance in the capital fund must be carefully managed to avoid damaging the District's financial status. Left unchecked, continuation of current borrowing and expenditure patterns would deepen the deficit each year.

To maintain its CIP despite these constraints, the Mayor proposes to use funds from the District's General Fund balance to finance a large share of FY 2006 capital expenditures. The District enjoyed a large surplus in its operating budget in FY 2004, and revenues are projected to hold strong in FY 2005. These funds can be a financing source for the CIP and allow greater expenditures than could be afforded by borrowing alone.

The Mayor's proposed FY 2006-FY 2011 capital budget authority request is $624 million for projects financed by local (non-streets) funds and $1.84 billion for all sources of funds. Planned capital expenditures for FY 2006 total $583 million from local funds, backed by $341 million of new G.O. bond issuance, $199 million of pay-as-you-go (Paygo) transfers from the operating General Fund balance, and $43 million of other sources.

This overview chapter summarizes

- The District's sources of funds for capital expenditures;
- The proposed FY 2006-FY 2011 capital budget and planned expenditures;

Table CA-1
Overview
(Dollars in thousands)*

Total number of projects receiving funding	140
Number of ongoing projects receiving funding	87
Number of new projects receiving funding	53
FY 2006 planned funding	$477,358
FY 2006 expenditures planned from prior funding	$105,762
Total FY 2006 planned expenditures	$583,120
Total FY 2006 to FY 2011 planned funding	$1,985,978
Total FY 2006 to FY 2011 planned expenditures	$1,985,978
FY 2006 Appropriated Budget Authority Request**	$1,841,939
Number of Capital Funded FTE Positions, FY 2005	750
FY 2006 Planned Debt Service	$372,428
FY 2006-FY 2009 Planned Debt Service	$1,633,925

Number of projects counts all DCPS projects as a single project.

* Local funds only; excludes DDOT's Local Street Maintenance Fund and Highway Trust Fund, securitizations, Certificates of Participation, and financing for baseball, except where noted.

** From local funds, DDOT's Local Street Maintenance Fund, securitizations, Certificates of Participation, and financing for baseball. Excludes Highway Trust Fund.

- The current shortfall in the capital fund, and steps the Mayor proposes to take to reduce the shortfall;
- An outline of this capital budget document;
- The District's policies and procedures on its capital budget and debt; and
- A summary of the Water and Sewer Authority's capital program.

The District's Sources of Funds for Capital Expenditures

The Mayor's proposed FY 2006-2011 capital budget includes a number of funding sources. The District uses the following sources to fund capital budget authority across a large number of agencies that have capital programs:

- G.O. bonds;
- Paygo capital funding;
- Master Equipment Lease financing; and
- Sales of assets.

Projects funded by these sources are detailed in the Project Description Forms (PDFs) in this budget document.

In addition, the District's Department of Transportation uses the following sources to fund its capital projects:

- Rights-of-way funds, for Local Street Maintenance Fund projects;
- Parking tax revenue (50 percent), for Local Street Maintenance Fund projects;
- Federal Highway Administration grants, for Highway Trust Fund projects; and
- Dedicated motor fuel tax revenues, for Highway Trust Fund projects (provides the local match for the Federal Highway Administration grants.

Local Street Maintenance Fund projects are detailed in the PDFs in this budget document. Projects in the Highway Trust Fund are detailed in a separate Highway Trust Fund budget document prepared for Congress in June.

Finally, the Mayor proposes to use securitizations,[1] Certificates of Participation, and a one-time borrowing to finance specific projects:

- Securitization of the bus shelter revenue stream, for streetscape projects;
- Securitization of the Housing Production Trust Fund revenue stream, for stimulation of new housing construction;
- Securitization of 50 percent of parking tax revenue, for bridge and road construction related to the Sousa and 11th Street bridges (this project will begin in FY 2006 using annual parking tax revenues, and the securitization is planned for FY 2008);
- Certificates of Participation, for construction of certain District buildings; and
- One-time borrowing, which will finance construction of the new baseball stadium. The ballpark revenue fund will hold bond proceeds from the borrowing; the proceeds will be used to build the stadium. Dedicated revenues will flow into this fund and be used to pay debt service on the bonds. See the "Baseball" chapter in the Special Studies volume for more details.

The Proposed FY 2006-FY 2011 Capital Budget and Planned Expenditures

The District budgets for capital using a six-year plan, the Capital Improvements Plan (CIP) document, which is updated annually. The CIP consists of the appropriated budget authority request for the upcoming fiscal year and projected funding as well as expenditure plans for the next five years. In most instances, the major portion of capital authority goes toward improvements or applicable activities associated with streets, bridges, government facilities, public schools, recreational and technology projects.

The CIP is used as the basis for formulating the District's annual capital budget. The Council and the Congress adopt the budget as part of the District's overall six-year CIP. Following approval of the capital budget, bond acts and bond resolutions are adopted to finance the majority of projects identified in the capital budget. Inclusion of a project in a congressionally adopted capital budget and approval of requisite financing gives the District the authority to spend funds for each project. The remaining five years of the program, called the outyears, show the official plan for making improvements to District-owned facilities in future years

The District uses two terms in describing budgets for capital projects:

- *Budget authority* is given to a project at its outset in

[1] Securitization is a financing method whereby a party sells bonds to investors based on a future stream of payments. The securitizing party receives funds up front from the proceeds of the bond sale. The investors receive periodic payment--principal plus interest--on their bonds, with the securitizing party making the payments as the future income stream materializes.

the amount of its planned lifetime budget; it can later be increased or decreased during the course of implementing the project. The District's appropriation request consists of changes to budget authority for all projects in the CIP.

- *Allotments* are planned expenditure amounts on an annual basis. A multi-year project receives full budget authority in its first year but only receives an allotment in the amount that is projected to be spent in that first year. In later years, additional allotments are given annually. If a year's allotment would increase the total allotments above the lifetime budget amount, an increase in budget authority is required to cover the difference.

Agencies may obligate funds up to the limit of (lifetime) budget authority for a project but cannot spend more than the total of allotments the project has received to date.

The FY 2006 - FY 2011 local funds CIP proposes a net increase in budget authority of $624 million during the next six fiscal years (an increase of $684 million of new budget authority offset by $60 million of rescissions).

Planned capital expenditures from local sources in FY 2006 total $583.1 million, of which $540.0 million is to be funded by G.O. bonds and Paygo financing (transfers from the District's General Fund). To finance this $540.0 million of expenditures, the Mayor proposes borrowing $341.1 million in new G.O. bonds and funding the remaining $198.9 million using Paygo financing.

New allotments from these sources will be limited to $434 million. The other $106 million of planned FY 2006 expenditures will be against allotments that agencies have received in prior years for their capital projects. The project description forms that constitute the detail of this capital budget document include all projects receiving new allotments in FY 2006 through FY 2011 from local sources.

Expenditures and budget authority proposed from all sources is summarized in table CA-2. These figures are part of the Mayor's appropriation request. Estimates

Table CA-2

Proposed FY 2006 Expenditures and FY 2006-FY 2011 Capital Budget Authority

(Dollars in thousands)

Source	Proposed FY 2006 Expenditures	Proposed FY 2006-FY 2011 Budget Authority
G.O. Bonds	341,074	
PAYGO capital funding (transfer from the General Fund)	198,926	
Master Equipment Lease financing	27,119	
Sales of assets	16,000	
Subtotal, Local Funds	**583,119**	**624,139**
Local Street Maintenance Fund:		
Rights-of-way funds	37,000	0
50 percent of parking tax revenue	15,000	15,000
Highway Trust Fund:		
Federal Highway Administration grants	Forthcoming (June)	Forthcoming (June)
Local match from dedicated motor fuel tax revenues	Forthcoming (June)	Forthcoming (June)
Securitizations:		
Bus shelter revenue	88,000 (est.)	88,000 (est.)
Housing Production Trust Fund revenue	50,000 (est.)	150,000 (est.)
Parking Tax Revenue	15,000 (est.)	230,000 (est.)
Certificates of Participation	200,000 (est.)	200,000 (est.)
Financing for baseball stadium	267,400 (est.)	534,800
Total (Excluding Highway Trust Fund)	**1,255,519**	**1,841,939**

for the last five items in table CA-2 are preliminary, as analysis is still ongoing. The Mayor is requesting budget authority for the full amount of the securitizations, Certificates of Participation, and financing for the baseball stadium in FY 2006. Expenditures may not all occur in FY 2006, and to the extent possible, the District may delay actual borrowings until funds are needed for forthcoming expenditures. In addition, adoption of a private financing proposal for part of the baseball stadium costs will reduce the District- financed amount.

The capital fund pro forma, table CA-3, summarizes the sources and uses for local funds in the Mayor's CIP.

After several years of underfunding, the District has significantly increased its expenditures to reinvest in its infrastructure. However, even today, it is not able to fund all its identified capital needs, as competing needs pull in opposite directions. The District is limited by funding as well as competing demands on capital. As a result of these demands, the District has taken action to meet its priorities while also maintaining a fiscally sound CIP. First, it has prioritized its capital projects and rescinded budget authority from those it deemed less important. Second, it has reallocated funding to high priority projects - both existing and new so that it can meet its most pressing infrastructural needs.

Figure CA-1 illustrates the planned expenditures from new FY 2006 allotments by major agency. D.C. Public Schools (DCPS) constitutes the majority of the planned expenditures. A significant portion of funding also goes toward the Washington Metropolitan Area Transit Authority, the Deputy Mayor for Planning and Economic Development, and the Office of the Chief Technology Officer. Figure CA-2 illustrates the planned funding by fund type in FY 2006. This figure shows that the primary source of funding for the capital improvements program is through its issuance of general obligation bonds, but about one-third is from Paygo.

Details on individual projects are included in the PDFs later in this volume. Note that DCPS is still developing its capital budget, and thus detail for DCPS projects is not included in the PDFs. Appendices A through C summarize uses and sources of funds by agency and project.

FY 2006 Operating Budget Impact

Each $15 million in borrowing has approximately a $1 million impact on the operating budget for debt service. The capital budget's impact on the operating budget is the debt service cost, paid from local revenue in the operating budget, associated with issuing G.O. bonds to finance the CIP. Table CA-4 shows the overall debt service funded in the FY 2006 operating budget, while table CA-5 shows the total outstanding G.O. bonds debt service.

Figure CA-1
FY 2006 Capital Allotments, by Major Agency

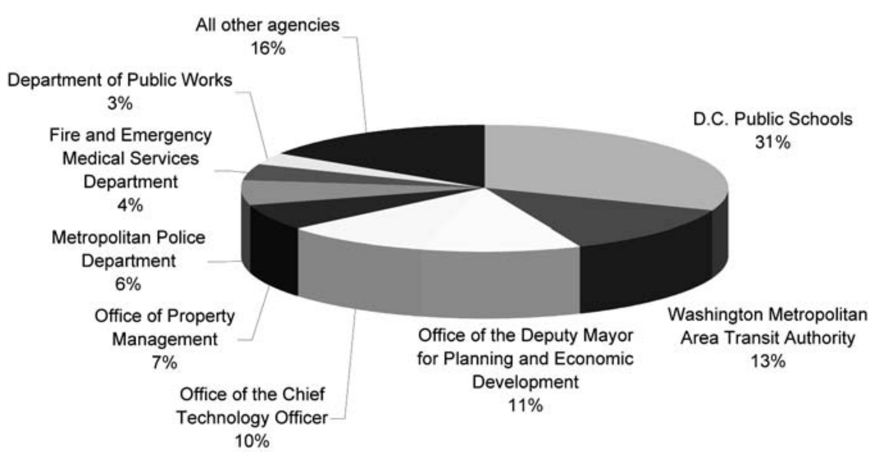

Table CA-3

Capital Fund Pro Forma

(Dollars in thousands; excludes Highway Trust and Local Street Maintenance funds)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total, FY 2006-FY 2011	Percent of of FY 2006
Sources:								
G.O. Bonds	341,074	304,008	303,156	256,583	225,341	222,917	1,653,080	58.5%
Pay-As-You-Go (PAYGO)	198,926	10,000	0	0	0	0	208,926	34.1%
Master Equipment Lease	27,120	16,728	15,595	15,820	15,675	17,035	107,973	4.7%
Sale of Assets	16,000	0	0	0	0	0	16,000	2.7%
Total	**583,120**	**330,735**	**318,752**	**272,403**	**241,017**	**239,952**	**1,985,978**	**100.0%**
Uses: New Allotments								
D.C. Public Schools	147,123	98,299	98,300	98,300	98,832	98,800	639,654	30.8%
Washington Metropolitan Area Transit Authority	60,500	48,700	55,900	60,900	68,400	76,200	370,600	12.7%
Office of the Deputy Mayor for Plan. & Econ. Dev.	50,870	20,500	18,500	5,000	0	0	94,870	10.7%
Office of the Chief Technology Officer	46,760	9,500	6,500	3,750	4,750	0	71,260	9.8%
Office of Property Management	31,842	18,870	27,740	17,740	4,240	4,240	104,672	6.7%
Metropolitan Police Department	30,190	8,150	5,200	5,200	5,200	5,200	59,140	6.3%
Fire and Emergency Medical Services Department	19,715	16,909	15,972	16,568	17,944	17,020	104,128	4.1%
Department of Public Works	14,235	9,351	6,195	6,420	6,275	7,635	50,111	3.0%
Department of Parks and Recreation	13,961	25,451	28,545	26,575	12,475	13,557	120,564	2.9%
University of the District of Columbia	9,700	11,450	3,400	0	0	0	24,550	2.0%
Department of Housing and Community Development	9,561	2,075	4,250	4,250	1,000	0	21,136	2.0%
Department of Health	9,260	7,000	0	0	0	0	16,260	1.9%
D.C. Public Library	7,254	18,862	12,000	12,000	12,000	12,000	74,116	1.5%
Department of Human Services	6,691	6,629	5,849	5,500	0	0	24,669	1.4%
Department of Mental Health	5,000	0	0	0	0	0	5,000	1.0%
Department of Youth Rehabilitation Services	2,693	11,500	20,000	0	0	0	34,193	0.6%
Office of the Chief Financial Officer	2,500	600	0	0	0	0	3,100	0.5%
Office of the Attorney General	2,150	0	0	0	0	0	2,150	0.5%
Department of Corrections	1,800	3,090	1,100	0	0	0	5,990	0.4%
Commission on the Arts and Humanities	1,720	2,500	0	0	0	0	4,220	0.4%
Office of the Chief Medical Examiner	1,714	0	0	0	0	0	1,714	0.4%
Office of Planning	1,545	1,500	1,500	1,500	1,500	1,500	9,045	0.3%
D.C. Office on Aging	576	0	0	0	0	0	576	0.1%
Department of Consumer and Regulatory Affairs	0	3,800	3,800	3,800	3,800	3,800	19,000	0.0%
Department of Transportation	0	6,000	4,000	4,900	4,600	0	19,500	0.0%
Subtotal, new allotments	**477,358**	**330,735**	**318,752**	**272,403**	**241,017**	**239,952**	**1,880,216**	**100.0%**
Uses: Planned Spending from Prior-Year Allotments	105,762	0	0	0	0	0	105,762	
Total, Uses	**583,120**	**330,735**	**318,752**	**272,403**	**241,017**	**239,952**	**1,985,978**	

Figure CA-2
Source of Funds for Capital Expenditures, FY 2006

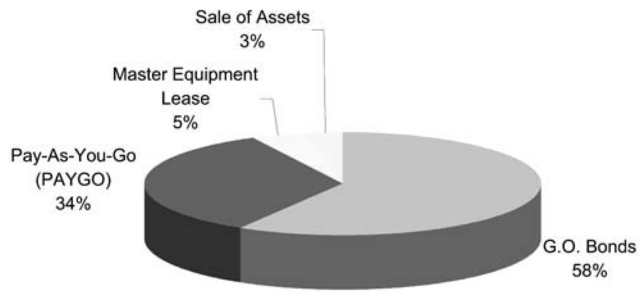

Table CA-4
FY 2005 Financial Plan Debt Service Expenditure Estimates

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Existing General Obligation (G.O.) Bonds Debt Service	**$347,700,000**	**$362,658,463**	**$363,280,906**	**$362,828,217**	**$362,518,324**
Prospective G.O. Bonds Debt Service					
- FY 2006 Bonds ($341 M)		$9,769,050	$27,158,700	$27,153,900	$27,156,600
- FY 2007 Bonds ($300 M)			$8,876,000	$21,590,500	$21,591,750
- FY 2008 Bonds ($300 M)				$8,876,000	$21,590,500
- FY 2009 Bonds ($300 M)					$8,876,000
Total G.O. Bonds Debt Service (Agency DS0)*	$347,700,000	$372,427,513	$399,315,606	$420,448,617	$441,733,174
Payments on Certificates of Participation (Agency CP0)**	$15,252,000	$15,000,000	$15,000,000	$15,000,000	$15,000,000
Total Long-term Debt Service	$362,952,000	$387,427,513	$414,315,606	$435,448,617	$456,733,174
Interest on Short-term Borrowing (Agency ZA0)	$4,000,000	$5,500,000	$5,500,000	$5,500,000	$5,500,000
Total Debt Service	$366,952,000	$392,927,513	$419,815,606	$440,948,617	$462,233,174

* Does not include debt service on G.O. bonds issued to finance water and sewer-related projects, which is paid by the D.C. Water and Sewer Authority (WASA).

** Includes debt service on the One Judiciary Square and Unified Communications Center (UCC)/D.C .Net Certificates of Participation financings. Each year's figure for CP0 includes $1.3 million for property taxes on these 2 properties payable by the District (as Lessee) to the Trustee (as Owner and Lessor), and by the Trustee to the District (as taxing jurisdiction). In effect, the District is paying itself, so there will be tax revenue to offset this $1.3 million of this expenditure line item.

In addition, in FY06, $4 million of the total will be funded via Intra-District funding for the UCC/DC-Net debt service (and $2 million in FY07).

Table CA-5

Outstanding GO Bonds Debt Service

Fiscal Year	Date	Principal	Interest	Total Debt Service	Fiscal Year Debt Service
	12/1/05	15,635,000.00	86,141,018.54	101,776,018.54	
FY Ending 9/30/06	6/1/06	172,460,000.00	85,686,477.17	258,146,477.17	359,922,495.71
	12/1/06	-	82,187,666.64	82,187,666.64	
FY Ending 9/30/07	6/1/07	195,365,000.00	82,182,631.52	277,547,631.52	359,735,298.16
	12/1/07	-	76,941,839.19	76,941,839.19	
FY Ending 9/30/08	6/1/08	205,825,000.00	76,939,321.63	282,764,321.63	359,706,160.82
	12/1/08	-	71,541,473.83	71,541,473.83	
FY Ending 9/30/09	6/1/09	216,170,000.00	71,538,956.27	287,708,956.27	359,250,430.10
	12/1/09	-	65,733,088.76	65,733,088.76	
FY Ending 9/30/10	6/1/10	228,200,000.00	65,728,053.64	293,928,053.64	359,661,142.40
	12/1/10	-	59,579,348.56	59,579,348.56	
FY Ending 9/30/11	6/1/11	181,830,000.00	59,574,313.44	241,404,313.44	300,983,662.00
	12/1/11	-	54,659,724.04	54,659,724.04	
FY Ending 9/30/12	6/1/12	164,623,004.00	74,379,202.48	239,002,206.48	293,661,930.51
	12/1/12	-	50,687,537.03	50,687,537.03	
FY Ending 9/30/13	6/1/13	164,279,885.00	72,705,134.47	236,985,019.47	287,672,556.49
	12/1/13	-	46,805,905.94	46,805,905.94	
FY Ending 9/30/14	6/1/14	160,254,845.20	62,281,025.61	222,535,870.82	269,341,776.75
	12/1/14	-	42,960,868.11	42,960,868.11	
FY Ending 9/30/15	6/1/15	108,280,000.00	42,956,983.75	151,236,983.75	194,197,851.85
	12/1/15	-	40,430,081.39	40,430,081.39	
FY Ending 9/30/16	6/1/16	102,375,000.00	40,428,756.78	142,803,756.78	183,233,838.16
	12/1/16	-	38,004,920.60	38,004,920.60	
FY Ending 9/30/17	6/1/17	107,700,000.00	38,004,256.97	145,704,256.97	183,709,177.57
	12/1/17	-	35,441,642.56	35,441,642.56	
FY Ending 9/30/18	6/1/18	113,200,000.00	35,440,315.30	148,640,315.30	184,081,957.85
	12/1/18	-	32,824,589.11	32,824,589.11	
FY Ending 9/30/19	6/1/19	118,885,000.00	32,823,261.85	151,708,261.85	184,532,850.95
	12/1/19	-	30,107,920.41	30,107,920.41	
FY Ending 9/30/20	6/1/20	123,040,000.00	30,107,256.78	153,147,256.78	183,255,177.18
	12/1/20	-	27,284,813.05	27,284,813.05	
FY Ending 9/30/21	6/1/21	128,685,000.00	27,284,813.05	155,969,813.05	183,254,626.10
	12/1/21	-	24,377,179.35	24,377,179.35	
FY Ending 9/30/22	6/1/22	135,020,000.00	24,377,179.35	159,397,179.35	183,774,358.70
	12/1/22	-	21,399,472.15	21,399,472.15	
FY Ending 9/30/23	6/1/23	141,370,000.00	21,399,472.15	162,769,472.15	184,168,944.30

Table CA-5, continued

Outstanding GO Bonds Debt Service

	12/1/23	-	18,301,798.85	18,301,798.85	
FY Ending 9/30/24	6/1/24	147,695,000.00	18,301,798.85	165,996,798.85	184,298,597.70
	12/1/24	-	15,064,806.48	15,064,806.48	
FY Ending 9/30/25	6/1/25	154,625,000.00	15,064,806.48	169,689,806.48	184,754,612.95
	12/1/25	-	11,699,518.98	11,699,518.98	
FY Ending 9/30/26	6/1/26	161,750,000.00	11,699,518.98	173,449,518.98	185,149,037.95
	12/1/26	-	8,176,223.90	8,176,223.90	
FY Ending 9/30/27	6/1/27	128,695,000.00	8,176,223.90	136,871,223.90	145,047,447.80
	12/1/27	-	5,383,913.85	5,383,913.85	
FY Ending 9/30/28	6/1/28	87,665,000.00	5,383,913.85	93,048,913.85	98,432,827.70
	12/1/28	-	3,425,855.05	3,425,855.05	
FY Ending 9/30/29	6/1/29	45,540,000.00	3,425,855.05	48,965,855.05	52,391,710.10
	12/1/29	-	2,445,318.30	2,445,318.30	
FY Ending 9/30/30	6/1/30	32,615,000.00	2,445,318.30	35,060,318.30	37,505,636.60
	12/1/30	-	1,800,515.53	1,800,515.53	
FY Ending 9/30/31	6/1/31	24,390,000.00	1,800,515.53	26,190,515.53	27,991,031.05
	12/1/31	-	1,320,500.00	1,320,500.00	
FY Ending 9/30/32	6/1/32	21,150,000.00	1,320,500.00	22,470,500.00	23,791,000.00
	12/1/32	-	897,500.00	897,500.00	
FY Ending 9/30/33	6/1/33	22,000,000.00	897,500.00	22,897,500.00	23,795,000.00
	12/1/33	-	457,500.00	457,500.00	
FY Ending 9/30/34	6/1/34	22,875,000.00	457,500.00	23,332,500.00	23,790,000.00
	12/1/34	-	-		
FY Ending 9/30/35	6/1/35	-	-		-
		3,632,197,734	**1,968,893,403**	**5,601,091,137**	**5,601,091,137**

Capital Funded Positions

Designing and implementing capital projects can require specialized labor. In most instances, the personal services (PS) costs associated with these positions are charged to the General Fund. However, there are certain circumstances that allow agencies to charge positions against capital projects. For example, the Department of Transportation may hire specific types of construction engineers and project managers to work on a Highway Trust Fund road project and charge them against a capital project. Funding for these types of positions is permissible, as long as the position is contributing to completing the project.

Figure CA-3 shows that the District reduced the total number of capital funded positions between 1993. and 1999. Capital funded FTEs have increased since then but have not reached the level of the early 1990s . The District is still more than 200 positions below its level in FY 1993.

Shortfall in the General Capital Improvements Fund

For the past three fiscal years, the District's Comprehensive Annual Financial Report (CAFR) has shown a shortfall in the General Capital Improvements fund (the "capital fund") (see table CA-6). This fund commingles a wide variety of expenditures and financing sources. All District capital expenditures other than those in the local Highway Trust Fund are recorded in the capital fund. Financing sources for the capital fund are primarily G.O. bonds but also include other types of borrowings, federal grants, and other sources.

The District's capital fund faced a shortfall of about $250 million at the end of FY 2004. This means that expenditures have exceeded financing sources by that amount on a cumulative basis, and the District's General Fund has advanced funds to the capital fund to cover the expenditures.

Until a few years ago, agencies had been slow to spend capital dollars, resulting in the District's paying interest on borrowed funds that then sat idle earning lower interest rates in District bank accounts. The District instituted a policy to delay borrowing until funds were needed for expenditures. At the same time, agencies were pushed to begin spending budgeted capital dollars. The General Fund paid for capital expenditures up front and was reimbursed after bonds were issued. While these policies have had the beneficial effect of lowering debt service costs in the operating budget, the shortfall must be kept within limits, or the General Fund may encounter cash flow problems.

The District is taking steps to isolate the G.O. bond financed portion of the capital fund from the other funding sources. At the present time, it is difficult to determine the portion of the fund's shortfall that is attributable to G.O. bond financed projects.

To manage and reduce the fund's shortfall, the

Figure CA-3

Number of Capital-Funded FTE Positions From FY 1993 to FY 2006 (Proposed)

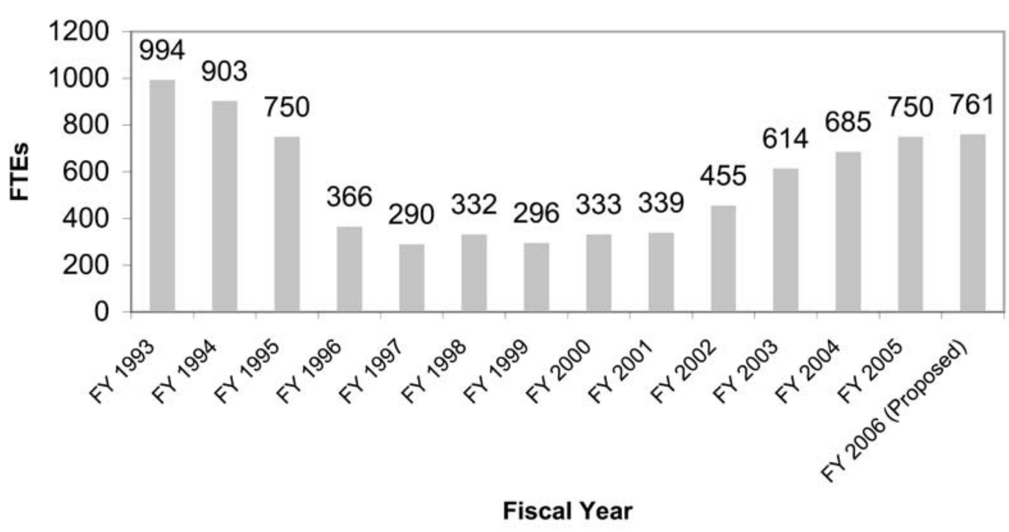

Table CA-6

Fund Balance in the General Capital Improvements Fund, FY 1998-FY 2004

(Dollars in millions)

Fiscal Year	Positive / (Negative) Fund Balance
1998	224.0
1999	387.5
2000	458.4
2001	(57.9)
2002	(389.5)
2003	(141.8)
2004	(250.2)

Mayor proposes to transfer $54 million from the General Fund to the capital fund in FY 2006 to directly reduce the shortfall. In addition, the Mayor proposes to manage capital expenditures so that they remain below financing sources in each year. This can be difficult, because while agencies receive new spendable budgets (allotments) each year, they may also spend against prior-year allotments that have not yet been exhausted.

For this reason, while financing sources in FY 2006 total $583 million, the Mayor's proposed capital budget includes new allotments of only $477 million. This will allow $106 million of expenditures against unspent prior-year allotments.

The Mayor, the Council, and the Chief Financial Officer plan to reduce the shortfall in the capital fund over the next three years. Specific steps to be taken include using spending plans to monitor and control capital spending, applying General Fund resources to the capital fund when available, and possibly holding back budget authority below the amounts of borrowing in some years.

Outline of this Capital Budget Document

The remainder of this overview chapter includes the District's policies on capital budget and debt and a summary of the capital program of the Water and Sewer Authority. The following sections then make up the rest of this capital budget document. Projects in all of these sections are grouped by the owner (rather than the implementing) agency,[2] except where noted.

- *Project Description Forms (PDFs):* Provide details on capital projects funded by G.O. bonds, Paygo capital, and Master Equipment Lease arrangements, as well as Local Street Maintenance Fund projects. They do not include details on the securitization and the baseball stadium projects, which have been described above. The expenditure schedules shown in these pages display the planned allotments (1-year spending authority) by year for FYs 2006 through 2011. Ongoing projects with no new allotments scheduled are not included in these pages.
- *Appendix A, FY 2006 Planned Expenditures From New and Existing Allotments:* Summarizes all planned FY 2006 expenditures, of which $477 million come from new allotments and $106 million come from expenditures against allotments that projects received in FY 2005 or earlier.
- *Appendix B, FY 2006-FY 2011 Planned Expenditures From New Allotments:* Shows new allotments for ongoing and new projects for all six years of the CIP.
- *Appendix C, FY 2006-FY 2011 Planned Funding:* Shows the source of financing for the projects displayed in appendix B.
- *Appendix D, Balance of Capital Budget Authority, All Projects:* Shows expenditures, obligations, and remaining budget authority for all ongoing capital projects. Because this report comes from budgets in the financial system, projects are grouped by implementing rather than owner agency.
- *Appendix E, FY 2006 Appropriated Budget Authority Request:* Summarizes the new budget authority the Mayor proposes. Budget authority is established as the budget for a project's lifetime, so these requests are only for new projects or for increases in lifetime budgets for ongoing projects. Because budget authority is given to the implementing agency, projects are grouped by implementing agency.
- *Appendix F, Glossary of Capital Budget Terms:* Provides definitions for terms used throughout this budget document.

[2] A capital project has both an owner and an implementing agency. The implementing agency performs the work on the project, while the owner agency eventually benefits from the completed project. Although many District agencies implement their own capital projects, several central agencies, such as the Office of Property Management and the Office of the Chief Technology Officer, implement projects on behalf of many other agencies.

District of Columbia Policies and Procedures: Capital Budget and Debt

The District of Columbia's Capital Improvements Program (the "Capital Program") comprises the finance, acquisition, development, and implementation of permanent improvement projects for the District's fixed assets. Such assets generally have a useful life of more than three years and cost more than $250,000.

The text of the CIP is an important planning and management resource. It analyzes the relationship of projects in the capital budget to other developments in the District. It also describes the programmatic goals of the various District agencies and how those goals impact the need for new, rehabilitated, or modernized facilities. Finally, it details the financial impact and requirements of the all the District's capital expenditures.

The CIP is flexible, allowing project expenditure plans to be amended from one year to the next to reflect actual expenditures and revised expenditure plans. However, consistent with rigorous strategic planning, substantial changes in the program are discouraged. The CIP is updated each year by adding a planning year, reflecting any necessary changes in projected expenditure schedules, proposed projects and District priorities.

The District's legal authority to initiate capital improvements began in 1790 when Congress enacted a law establishing the District of Columbia as the permanent seat of the federal government and authorized the design of the District and appropriate local facilities. The initial roads, bridges, sewers and water systems in the District were installed to serve the needs of the federal government and were designed, paid for, and built by Congress. During the 1800s, the population and private economy of the federal District expanded sharply, and the local territorial government undertook a vigorous campaign to meet new demands for basic transportation, water, and sewer systems.

From 1874 to 1968, commissioners appointed by the President and confirmed by Congress managed the District. One commissioner, from the Corps of Engineers, was responsible for coordinating the maintenance and construction of all local public works, in accordance with annual budgets approved by the President and the Congress.

Legislation passed in the 1950s gave the District broader powers to incur debt and borrow from the United States Treasury. However, this authority was principally used for bridges, freeways, and water and sewer improvements. In 1967, the need for significant improvements in District public facilities was acknowledged. This awareness led to the adoption of a $1.5 billion capital improvement program to build new schools, libraries, recreation facilities, and police and fire stations.

A 1984 amendment to the Home Rule Act gave the District the authority to sell general obligation bonds to finance improvements to its physical infrastructure. The District has more than $3.5 billion of general obligation bonds outstanding, which were issued to finance capital infrastructure improvements.

In September 1997, the President signed the National Capital Revitalization Act (the "Revitalization Act"). The act relieved the District of its operations at Lorton Correctional Facility. It also transferred responsibility for funding the maintenance and operation of the D.C. Courts system to the Office of Management and Budget (OMB). The District will therefore not incur the significant capital expenditures required at these facilities. In return, the District will no longer receive a federal payment in lieu of taxes for these functions.

In addition, the Revitalization Act raised the allowable percent of annual debt service payable from 14 percent to 17 percent of anticipated revenues to compensate the District for the loss of the federal payment and broadened the District's debt financing authority. The primary impact of this aspect of the Revitalization Act was to increase the District's flexibility to finance capital requirements.

Legal Authority and Statutory Basis

The legal authority for the District's Capital Program comes from the District of Columbia Home Rule Act, P.L. 93-198, §444, 87 Stat. 800. The Mayor is directed to prepare a multi-year Capital Improvements Plan (CIP) for the District. This plan shall be based upon the approved current fiscal year budget. It shall include the status, estimated period of usefulness, and total cost of each capital project on a full funding basis for which any appropriation is requested or any expenditure will be made in the forthcoming fiscal year and at least four fiscal years thereafter.

Along with this statutory requirement, Mayor's Order 84-87 supplements the legal authority and assigns additional responsibility for the District's Capital Program. This Order creates within the Office of Budget and Planning a Capital Program coordinating office to provide central oversight, direction, and coordination of the District's capital improvements program, planning, budgeting, and monitoring. The administrative order requires the Office of Budget and Planning to develop a CIP that identifies the current fiscal year budget and includes status, estimated period of usefulness, and total cost of each capital project on a fully funded basis for which any appropriation is requested or any expenditure will be made over the next six years. The CIP includes:

- An analysis of the CIP, including its relationship to other programs, proposals, or other governmental initiatives.
- An analysis of each capital project, and an explanation of a project's total cost variance of greater than five percent.
- Identification of the years and amounts in which bonds would have to be issued, loans made, and costs actually incurred on each capital project. Projects are identified by applicable maps, graphics, or other media.

Why A Capital Improvements Program?

A Capital Improvements Program that coordinates planning, financing and infrastructure and facilities improvements is essential to meet the needs of a jurisdiction uniquely situated as the Nation's Capital. As mentioned previously, capital improvements are those that, because of expected long-term useful lives and high costs, require large amounts of capital funding. These funds are spent over a multi-year period and result in a fixed asset.

The primary funding source for capital projects is tax-exempt bonds. These bonds are issued as general obligations of the District. Debt service on these bonds (the repayment of principal and the payment of interest over the lifetime of the bonds) becomes expenditures in the annual operating budget.

The Home Rule Act sets certain limits on the total amount of debt that can be incurred. Maximum annual debt service cannot exceed 17 percent of general fund revenues to maintain fiscal stability and good credit ratings. As a result, it is critical that the CIP balance funding and expenditures over the six-year period to minimize the fiscal impact on the annual operating budget.

Principles of the Capital Program

Several budgetary and programmatic principles are invested in the CIP. These are:

- To build facilities supporting the District stakeholders' objectives.
- To support the physical development objectives incorporated in approved plans, especially the Comprehensive Plan.
- To assure the availability of public improvements.
- To provide site opportunities to accommodate and attract private development consistent with approved development objectives.
- To improve financial planning by comparing needs with resources, estimating future bond issues plus debt service and other current revenue needs, thus identifying future operating budget and tax rate implications.
- To establish priorities among projects so that limited resources are used to the best advantage.
- To identify, as accurately as possible, the impact of public facility decisions on future operating budgets, in terms of energy use, maintenance costs, and staffing requirements among others.
- To provide a concise, central source of information on all planned rehabilitation of public facilities for citizens, agencies, and other stakeholders in the District.
- To provide a basis for effective public participation in decisions related to public facilities and other physical improvements.

It is the responsibility of the Capital Program to ensure that these principles are followed.

Program Policies

The overall goal of the Capital Program is to preserve the District's capital infrastructure. Pursuant to this goal, projects included in the FY 2006 to FY 2011 CIP and FY 2006 Capital Budget support the following programmatic policies:

- Provide for the health, safety and welfare needs of District residents.
- Provide and continually improve public educational facilities for District residents.
- Provide adequate improvement of public facilities.
- Continually improve the District's public transportation system.
- Support District economic and revitalization efforts generally and in targeted neighborhoods.
- Provide infrastructure and other public improvements that retain and expand business and industry.
- Increase employment opportunities for District residents.
- Promote mutual regional cooperation on area-wide issues, such as the Washington Area Metropolitan Transit Authority, Water and Sewer Authority, and solid-waste removal.
- Provide and continually improve public housing and shelters for the homeless.

Fiscal Policies

Project Eligibility for Inclusion in the Capital Improvements Plan (CIP)

Capital expenditures included as projects in the CIP must:

- Be carefully planned, generally as part of the District-wide Facility Condition Assessment Study in concert with the Comprehensive Plan. This planning provides decision-makers with the ability to evaluate projects based on a full disclosure of information.
- Have a useful life of at least five years or add to the physical infrastructure and capital fixed assets.
- Exceed a dollar threshold of $250,000.
- Enhance the productivity or efficiency capacity of District services.
- Have a defined beginning and a defined ending.
- Be related to current or future projects. For example, feasibility studies and planning efforts not related to a specific project should be funded with current revenues rather than with capital funds.

Policy on Debt Financing

With a few exceptions (i.e.,Highway Trust Fund projects), the CIP is primarily funded with general obligation bonds or equipment lease/purchase obligations. Capital Improvement Projects usually have a long useful life and will serve taxpayers in the future as well as those paying taxes currently. It would be an unreasonable burden on current taxpayers to pay for the entire project upfront. General obligation bonds, retired over a 20 to 30-year period, allow the cost of capital projects to be shared by current and future taxpayers, which is reasonable and fair. Capital improvement projects eligible for debt financing must:

- Have a combined average useful life at least as long as average life of the debt with which they are financed.
- Not be able to be funded entirely from other potential revenue sources, such as Federal aid or private contributions.

Policy on Capital Debt Issuance

In formalizing a financing strategy for the District's Capital Improvements Plan, the District adheres to the following guidelines in deciding how much additional debt, both general obligation and revenue bonds, may be issued during the six-year CIP planning period:

- STATUTORY REQUIREMENTS: The issuance of general obligation indebtedness cannot cause maximum annual debt service to exceed 17 percent of general fund revenues as stipulated in the Home Rule Act.
- AFFORDABILITY: The level of annual operating budget resources used to pay debt service should not impair the District's ability to fund ongoing operating expenditures and maintain operating liquidity.
- FINANCING SOURCES: The District evaluates various financing sources and structures to maximize capital project financing capacity at the lowest cost available, while maintaining future financing flexibility.
- CREDIT RATINGS: Issuance of additional debt should not negatively impact the District's ability to maintain and strengthen current credit ratings, which involves the evaluation of the impact of additional debt on the District's debt burden. This includes having certain criteria and ceilings regarding the issuance of new debt and debt ratios such as debt per capita and debt service to general fund expenditures.

Policy on Terms for Long-Term Borrowing

To mitigate the interest costs associated with borrowing, the District seeks to identify sources other than bond proceeds to fund its CIP, such as grants, Highway Trust Fund money, and Paygo capital. Furthermore, the District issues its bonds annually based on anticipated spending for the fiscal year, not on a project-by-project basis. The District has issued only general obligation bonds to finance its CIP in the past, but will continue to analyze the potential benefits associated with the issuance of revenue bonds for general capital purposes in the future. The pledge of a specific revenue source for the issuance of revenue bonds must not have a negative impact on the District's general fund or general obligation bond ratings, and must provide favorable interest rates.

To match the debt obligations with the useful life of the projects being financed, the District issues short to intermediate-term financing for those projects that may not fit the criteria for long-term financing. The District amortizes bonds over a 25 to 30-year period for those projects with an average 30-year useful life.

Bonds may be issued by independent agencies or instrumentalities of the District as authorized by law. Payment of the debt service on these bonds is solely from the revenue of the independent entity or the project being financed.

Policy on Terms for Short-Term (Interim) Borrowings

The District may issue other forms of debt as appropriate and authorized by law, such as bond anticipation notes (BANs) and commercial paper. The use of BANs or commercial paper provides a means of interim financing for capital projects in anticipation of a future bond offering or other revenue takeout. Furthermore, use of

Table CA-7
Debt Ratios

Debt Measures	District of Columbia	Baltimore MD	Chicago IL	Detroit MI	San Antonio TX	New York NY	Philadelphia, PA
Net Overall Debt to Full Value	5.1%	2.7%	6.3%	34.6%	1.9%	10.0%	8.9%
Net Overall Debt per Capita	$6,177	$825	$4,126	$2,856	$636	$5,751	$2,760
Debt Service as % of total General Fund Review/Exp	6.9%	5.9%	23.4%	6.5%	19.7%	8.0%	9.8%

Sources: Most recently published CAFRs (FY 2004 CAFRs for DC, Baltimore, New York, and Philadelphia; FY 2003 CAFRs for Chicago, Detroit, and San Antonio).

Table CA-8
Summary of Rating Agency Credit Ratings for Long-Term Debt

Investment Attributes	Fitch	Moody's	Standard & Poor's
Highest Quality	AAA	Aaa	AAA
High Quality	AA	Aa	AA
Favorable Attributes	A	A	A
Medium Quality/Adequate	BBB	Baa	BBB
Speculative Elements	BB	Ba	BB
Predominantly Speculative	B	B	B
Poor Standing	CCC	Caa	CCC
Highly Speculative	CC	Ca	CC
Lowest Rating	C	C	C

Source: Public Finance Criteria for Fitch, Moody's, and Standard &Poor's.

Table CA-9
Rating Agency Credit Ratings for Long-Term Debt, Various Cities

Municipalities	Fitch Ratings	Moody's	Standard & Poor's
District of Columbia	A-	A2	A
Baltimore	A+	A1	A+
New York	A+	A2	A
Philadelphia	A-	Baa1	BBB
Detroit	A	Baa1	A-
San Antonio	AA+	Aa2	AA+
Chicago	AA-	A1	A+

Source: Public Finance Criteria for Fitch, Moody's, and Standard& Poor's.

these types of interim financing tools would allow the District to benefit from lower interest costs by including short-term financing of capital expenditures in the initial financing structure. The use of BANs and/or commercial paper is intended at such times that it is financially feasible.

Policy on the use of the Master Equipment Lease/Purchase Program

The purpose of the Master Equipment Lease/Purchase Program is to provide District agencies with access to low-cost tax-exempt financing for equipment purchases, as an alternative to outright purchases, which would have a higher cost in the current year's budget, or other more expensive leasing or financing arrangements. Furthermore, the program assists the District in its asset/liability management by matching the useful life of the asset being financed with the amortization of the liability.

The program terms and conditions are established under an umbrella contract. Since the terms and conditions are established upfront, there is no need to negotiate a new lease contract each time equipment is to be financed, as long as the master lease agreement is in effect.

For equipment to be eligible, it must have a useful life of at least five years. The repayment (amortization) will not exceed the useful life of the equipment being financed. The maximum financing term that may be requested is 10 years.

Rolling stock such as automobiles, trucks, and public safety vehicles are eligible, as are computer hardware and software, with certain limitations.

Policy on the Use of Paygo Financing

"Pay-as-you-go" (Paygo) financing is obtained from current revenues authorized by the annual operating budget and approved by the Council and the Congress in a public law to pay for certain projects. No debt is incurred with this financing mechanism. Once the public law becomes effective, the operating funds are transferred to the capital account and allocated to the appropriate project. Generally, paygo financing supports the costs for minor repairs, equipment purchases, or other items that do not qualify for long-term general obligation bond financing. The Mayor has the following policies on the use of paygo financing:

- Paygo must be used for any CIP project not eligible for debt financing by virtue of its limited useful life.
- Paygo should be used for CIP projects consisting of short-lived equipment replacement (not eligible for the Master Equipment Lease/Purchase Program), and for limited renovations of facilities.
- Paygo may be used when the requirements for capital expenditures press the limits of bonding capacity.

Congressional Appropriations

Notwithstanding any other provisions in the law, the Mayor of the District of Columbia is bound by the following sections of the 2000 D.C. Appropriations Act, included in P.L. 105-277 of the Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 2000. These sections were mandated by the 105th Congress to be enacted for the fiscal year beginning October 1, 2000.

- 113 - At the start of the fiscal year, the Mayor shall develop an annual plan, by quarter and by project, for capital outlay borrowings: Provided, that within a reasonable time after the close of each quarter, the Mayor shall report to the Council of the District of Columbia and to the Congress the actual borrowings and spending progress compared with projections.
- 114 - The Mayor shall not borrow any funds for capital projects unless the Mayor has obtained prior approval from the Council of the District of Columbia, by resolution, identifying the projects and amounts to be financed with such borrowings.
- 115 - The Mayor shall not expend any monies borrowed for capital projects for the operating expenses of the District of Columbia government.

Trends Affecting Fiscal Planning

Several different kinds of trends and economic indicators are reviewed, projected, and analyzed each year for their impact on the operating budget and for their impact on fiscal policy as applied to the Capital Improvements Plan. These trends and indicators include:

- INFLATION: Important as an indicator of future project costs or the costs of delaying capital expenditures.
- POPULATION GROWTH/DECLINE: Provides the main indicator of the size or scale of required future facilities and services, as well as the timing of population-driven project requirements.
- DEMOGRAPHIC CHANGES: Changes in the number and/or locations within the District of specific age groups or other special groups, which pro-

vides an indication of requirements and costs of specific public facilities (e.g., senior wellness and recreation centers).

- PERSONAL INCOME: The principal basis for projecting income tax revenues as one of the District's major revenue sources.
- IMPLEMENTATION RATES: Measured through the actual expenditures within programmed and authorized levels. Implementation rates are important in establishing actual annual cash requirements to fund projects in the CIP. As a result, implementation rates are a primary determinant of required annual bond issuance.

Spending Affordability

One of the most important factors in the CIP development process is determining spending affordability. Spending affordability is determined by the amount of debt service and Paygo capital funds that can be reasonably afforded by the operating budget, given the District's revenue levels, operating/service needs, and capital/infrastructure needs. The size and financial health of the capital program is therefore somewhat constrained by the ability of the operating budget to absorb increased debt service amounts and/or operating requirements for capital expenditures. Realizing that maintenance and improvement in the infrastructure is important to the overall health and revitalization of the District, policymakers have worked diligently over the past several years to increase the levels of capital funding and expenditures. Debt and debt service reduction efforts on the part of District policymakers and financial leadership have served to increase the affordability of such additional capital spending. There is the on-going need, however, to balance the infrastructure needs with spending affordability constraints.

Master Facilities and Program Coordination Plan

The fiscal realities that continue to face the District of Columbia require a new level of scrutiny of all government costs. The capital budget, a critical area of the annual budget, is now in need of intensive review and further rationalization. Prompting this deeper analysis and decision-making is the reality that the borrowing capacity for capital projects has become severely constrained. To ensure continued good standing on Wall Street, the District must limit its FY 2005 capital borrowing to approximately $400 million. With this amount of funding, the District must not only cover its baseline capital costs (maintenance of existing facilities), it must provide funding for whatever new construction of schools, libraries, wellness centers, transportation systems, and other facilities.

Making tough decisions on what facilities to fund also requires a deeper understanding of the opportunities to coordinate and possibly merge community services. Strategically planning for programmatic ventures will be a critical factor in driving what facilities are truly needed and where.

For these reasons the District developed a Master Facilities and Program Coordination Plan, which provides an updated facility inventory and conditions assessment, and reflects detailed analysis on community and program needs. With this information, future capital fund allocations will be more effectively targeted to meet community and governmental priorities with the most efficient use of resources. This planning effort requires intensive data collection, analysis and strategic planning on both public facility and programmatic components. This initial work, therefore, incorporates establishing interim protocols for making informed decisions during the larger planning effort. The three primary challenges that must be addressed as part of this undertaking are:

Data limitations: Although the District currently maintains a facility inventory for approximately 2,400 properties under its control, the database still lacks specific details and updated information on the condition and needs of each facility. Understanding these details is now even more critical as it will determine the baseline capital costs (which consist of the asset and the basis of its value as well as the maintenance and renovation of the current inventory of property).

This plan will begin with a preliminary assessment of the existing facility inventory, identification of agencies' current facility plans, understanding the capacity of agencies to plan for future needs, and evaluation of all these items within the context of the District's comprehensive planning policies. This is a prerequisite for preparation of a workable scope of work for the Public Facilities Master Plan.

Borrowing constraints: The District's capital budget and Master Lease Program faces a widening gap between the District's constrained capital resources and the cost of maintaining its current inventory -- let alone the funds needed to support new projects.

Program coordination: Over the past few years, District agencies have stepped up efforts to coordinate and consolidate programs to save resources and create "synergy" in neighborhoods. Current examples include the "wrap-around services" provided at some schools. Recognizing the critical shortage in capital funding, fostering creative cooperation among and between service providers will be even more fundamental. To that end, strategic planning on public programs and operations will be necessary to determine where there are gaps in service, overlaps in service, and opportunities to leverage multiple services into one facility. These initial discoveries will help drive whether existing facilities need to be upgraded (and where) and whether new facilities are in fact necessary.

The City Administrator leads this planning effort, and the Office of Planning will provide a coordinating role to ensure that this shorter-term planning process remains consistent and integrated with the development of the Comprehensive Plan. The Office of Property Management, Office of Budget and Planning, and other offices will lead specific tasks as appropriate. All staff work will be performed by District employees, except for areas where specific expertise must be contracted due to the unique nature of the work or to maximize efficiency in the use of time.

Financial Management Targets

The District has established certain financial management targets that are consistent with maintaining a healthy debt management program to finance its capital needs. Key targets include the following:

1) Reduction or containment of increase of outstanding debt and debt service.

2) Debt ratios comparable with industry standards.

3) Achieving further increases in bond ratings from all three major rating agencies (to the AA level).

Financial Management Target: Reduction or Containment of Increase of Outstanding Debt and Debt Service

Historically, the District amortized most of its bond issues over 20 years. In addition to this amortization structure, the District financed an operating deficit in 1991 with an intermediate term (12-year) repayment structure. Only within the last several fiscal years has the District amortized its bonds over 25 to 30 years to better match the useful life of the assets being financed. The former amortization structures caused the District's debt service to be heavily front-loaded, creating a strain on the District's operating budget.

In FY 1999, the District restructured its debt to adjust this heavily front-loaded debt amortization. This restructuring, which moved some of the near-term debt service out to future years, produced debt service and operating budget relief through FY 2005.

From FY 2000 through FY 2004, the District issued a total of $626 million of unhedged variable-rate bonds to fund approved capital projects. Variable-rate bonds typically provide a lower cost of capital than fixed-rate bonds. For this reason, despite the inherent fluctuation in the debt service on them, it is desirable to have some portion of the District's debt portfolio as variable-rate. The District's target percentage range for variable-rate debt is 15 to 20 percent of the total debt portfolio. The current amount of variable-rate debt outstanding equals approximately 16.5 percent of the total.

In FY 2001, the District significantly reduced its outstanding general obligation debt by securitizing the revenues that it is due to receive over the next 30 years the national settlement with the manufacturers of tobacco products (the Master Settlement Agreement). The District established a separate instrumentality, the Tobacco Settlement Financing Corporation (the corporation), which issued bonds backed by the District's future tobacco settlement revenues (TSRs). This transaction represents the District selling its rights to these TSRs (to the corporation) in exchange for an upfront lump-sum payment (represented by the proceeds of the bond sale). These bonds are revenue bonds payable solely from TSRs to be received by the corporation. The bonds represent a debt of the corporation and not a debt of the District. Through this transaction, the District transferred the risk associated with non-receipt of TSRs in the future. The bond proceeds from transaction were used to pay off outstanding debt of the District. Specifically, the District reduced its outstanding debt by $482 million by applying these bond proceeds to pay off outstanding general obligation bonds. This resulted in debt service savings totaling approximately $684 million over 14 years, for an average of roughly $50 million of debt service savings per year.

In addition, in accordance with a Congressional requirement, the District used $35 million of its fund balance in FY 2000 to pay off outstanding general obligation bonds.

Through the transactions described above, the District significantly reduced and restructured its outstanding debt and the associated debt service payments to be made from the District's operating budget. Additional borrowing to fund on-going capital improvements over the past few years have naturally increased the outstanding debt and debt service, and the current CIP will result in further increases. However, these increasing levels will be continually monitored and contained within certain policy limits in the process of managing the debt burden and the debt service affordability.

Financial Management Target: Debt Ratios Comparable with Industry Standards and Within Debt Management Policy Parameters

Three debt ratios that are typically used as measures of a jurisdiction's debt burden are Debt-to-Full Value (property value), Debt Service-to-General Fund Expenditures, and Debt-Per-Capita. As the preceding table CA-7 indicates, the District's debt ratios are generally comparable with those of other major municipalities, and in some cases substantially better. However, the District's debt-per-capita is quite high compared to most other jurisdiction. One of the reasons for this high debt-per-capita is that for years the District has funded capital projects that are typically funded by states. Notwithstanding this fact, the District intends to continually monitor its debt ratios with the goal of having them be comparable or favorable in relation to other major municipalities and rating agency benchmarks. Moreover, the District has established certain debt management policy parameters for its debt ratios to effectively manage its debt burden over the long term. These parameters provide that the District should not exceed a debt-service-to-general fund expenditures ratio of 10 percent, a debt-per-capita of $8,000 and a debt-to-full value ratio of 10 percent. In addition, the amount of debt issued in any given fiscal year should not exceed 15 percent of the total current outstanding debt as of the end of the previous fiscal year. There is sufficient capacity within these policy parameters to issue the additional debt necessary to fund the District's proposed FY 2006 CIP.

Financial Management Target: Improving Bond Ratings from All Three Major Rating Agencies

Credit ratings evaluate the credit worthiness of a jurisdiction and the credit quality of the notes and bonds that the jurisdiction issues. Specifically, credit ratings are intended to measure the probability of the timely repayment of principal and interest on notes and bonds issued. Potential investors utilize credit ratings to assess their repayment risk in loaning the District funds for capital and short-term operating needs.

There are three major agencies that rate the District's debt: Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings Services. A summary of agency credit ratings categories for long-term debt is provided in the preceding table CA-8.

During FY 1995, the District's general obligation debt was downgraded by all three rating agencies to below-investment-grade or junk bond levels. Since 1998, each rating agency has issued a series of upgrades to the District's bond rating. The District's current ratings are A2, A, and A- by Moody's, Standard & Poor's and Fitch, respectively. The upgrades that occurred in 1999 raised the District's ratings back to investment-grade levels, and the upgrades to the A category in 2004 represented a significant milestone in the District's financial recovery. The upgrades in the bond ratings by these agencies made the District's bonds more marketable, hence resulting in a lower cost of capital to the District. One of the District's intermediate-to-long-term targets is to have its general obligation bond ratings raised to the AA level by these rating agencies.

The rating agencies currently rate the District's long-term general obligation bonds, and other major cities' bonds, (see table CA-9 for rates of other major cities) by the following information:

- Economic base
- Financial performance
- Management structure and performance
- Demographics
- Debt burden

Credit ratings are very important to the Capital Program. They affect the District's cost of capital as well as represent an assessment of the District's financial condition. The cost of capital also plays a role in determining spending affordability. Higher costs for capital financing diminish the ability of the Capital Program to proceed with programmatic objectives. In short, higher costs for capital results in fewer bridges rehabilitated, roofs repaired and facilities renovated. On the other hand, lower costs of capital increase the affordability of such projects.

FY 2006 Capital Budget Planning

Capital budgeting is closely connected to the facility conditions assessments. The data collected from these assessments will enable agency directors to better estimate capital needs over multiple years. This year, the administration has taken some important steps to improve the overall processes. First, we have begun estimating the projected capital needs over longer time periods for key agencies. Second, we are working with the major consumers of capital (WMATA, DCPS, and DCPL) to restructure their capital financing plans to comply with existing capital borrowing constraints. Third, we are better coordinating and standardizing capital expenditures across agencies such as elevator repair, asbestos removal and ADA compliance under one agency - Office of Property Management. Because of this preliminary work, the Mayor's proposed capital budget will show spending within pools of available resources while addressing the most critical needs.

Major Assumptions

A number of assumptions must be established to develop a comprehensive Capital Improvement Plan budget. Due to the unique and changing nature of the District's organizational structure and financial position, it is difficult to precisely forecast revenues, expenditure patterns, costs, and other key financial indicators. Nonetheless, the following primary assumptions were used to develop this CIP:

- The capital expenditure target for the FY 2006 to FY 2011 CIP is based on the assumption that the District can meet its FY 2006 budget's current and future expenditure targets as established by the CIP.
- The FY 2006 operating budget will be sufficient to provide for:
  - Lease payments for the District's Master Lease Program used to finance certain equipment projects.
  - Debt service on long-term bond financings.

Capital Improvements Plan Development Process

The Capital Program, as mandated by Public Law 93-198 - the Home Rule Act, has the annual responsibility of formulating the District's Six-Year Capital Improvements Plan. Each District agency is responsible for the initial preparation and presentation of an agency specific plan. Under the program, projects should complement the planning of other District agencies and must constitute a coordinated, long-term program to improve and effectively use the capital facilities and agency infrastructure. Specifically, the CIP should substantially conform to the Office of Planning's Comprehensive Plan, the District of Columbia Municipal Regulations Title 10 Planning and Development (Chapters 1 to 11).

Program Participants

The development and implementation of the CIP is a coordinated effort among the District's programmatic, executive, and legislative/oversight bodies.

Implementing Agencies (Programmatic)

Implementing agencies manage actual construction and installation of a capital facility or supporting infrastructure. The implementing agencies are responsible for the execution of projects. This task includes the appointment of a Capital Financial Officer, who monitors the progress of the projects, and ensures:

The original intent of the project is fulfilled as Congressionally approved.

- The highest priority projects established by the user agency are implemented first.
- Financing is scheduled for required expenditures.

While many District agencies implement their own capital projects, several central agencies, such as the Office of Property Management and the Office of the Chief Technology Officer, implement projects on behalf of many other agencies.

Office of Budget and Planning (Executive)

The Office of Budget and Planning (OBP) is responsible for issuing budget call instructions to District agencies. OBP provides technical direction to agencies for preparing expenditures plans, project/subproject justifications, priority ranking factors, operating budget impacts, cost estimates, milestone data and performance measures. The budget call allows for updates to ongoing projects and requests for additional financing and appropriated budget authority for ongoing and new projects. OBP coordinates project evaluations to determine agency needs through careful analysis of budget request data, review of current available and future financing requirements, and comparison of project financial needs with the current bond sales and general fund subsidies anticipated to be available for CIP purposes.

Technical Review Team (Executive)

The Technical Review Team (TRT) is led by the Office of the City Administrator and includes representatives from the offices of the Deputy Mayors, the Office of Property Management, the Office of Planning, and the Office of Budget and Planning. The TRT employs outside consultants as needed to analyze the feasibility and reasonableness of specific capital projects. The TRT reports its findings to the Budget Review Team (BRT) and makes recommendations regarding which non-IT projects should be included in the CIP.

Budget Review Team (Executive)

The City Administrator chairs the Budget Review Team (BRT) with representatives from the Office of the City Administrator, Chief Financial Officer, Deputy CFO for Budget and Planning, Deputy CFO for Finance and Treasury, Deputy Mayors and Mayor's Chief of Staff. The advisors to the team are the Directors of the Office of Property Management, Office of Planning, and the Office of the Chief Technology Officer. OBP provides analysis and all staff support to the BRT. The BRT evaluates agency requests using criteria developed by the Office of Budget and Planning.

Mayor (Executive)

The BRT recommendation is then submitted to the Mayor for review, approval and transmittal to the Council. There are two levels of legislative/oversight review. They are as follows:

- The Council of the District of Columbia
- The U.S. Congress

Each body reviews and approves the capital budget and the six-year plan.

Authorizing Projects in the CIP

The OBP reviews and analyzes the CIP with the assistance of the BRT. The CIP is developed in the four-step process described below :

Step 1: Budget Call

In the fall of the current fiscal year, District agencies are requested to provide OBP with updated information regarding ongoing projects (increases or decreases in funding or planned expenditures), as well as requests for new projects. The instructions call for agencies to provide detailed information on a project's expenditure requirements, physical attributes, implementation timeframe, feasibility, and community impact. In addition, agencies provide project milestones, estimated costs, expenditure plans, operating budget impacts and a prioritized list of potential capital projects. The agency requests are disseminated to all members of the TRT and BRT for review.

Step 2: Budget Analysis

Project requests submitted in Step 1 undergo a thorough analysis to determine if an agency requests merits inclusion in the CIP. This analysis is divided into the following three primary functions:

Function 1 - Project Justification: Each project request is evaluated by the BRT to determine its relationship with the agency's overall mission, whether the project is duplicative of efforts of another agency's ongoing project, whether the project is in concurrence with the District's Comprehensive Plan, and whether the planned expenditure is an operating rather than capital expense.

In addition, project requests are reviewed based on priority criteria and must meet one or more of the factors below :

- Health/Safety
- Legal Compliance
- Efficiency Improvement
- Facility Improvement
- Revenue Initiative
- Economic Development
- Project Close-out

Function 2 - Cost Analysis: An important factor in the evaluation of a project request is the overall cost. Cost estimates are developed in conjunction with the Department of Public Works and the Office of Property Management to validate the project costs proposed in the agency submissions. Furthermore, future operating costs are estimated in order to provide supplementary information regarding out-year liabilities once the project is implemented (Operating Budget Impacts).

Function 3 - Financing Analysis: The Office of the Chief Financial Officer is committed to finance capital projects in a manner in which:

- Funding is committed for the entire CIP
- The District receives the lowest cost of funding available
- The useful life of capital projects matches and does not exceed the average maturity of the liability used to finance the assets

As such, OBP reviews the useful life of each project and presents this information to the Office of Finance and Treasury (OFT). OFT develops a strategy to match the underlying assets with an appropriate means of financing.

Step 3: TRT and BRT Recommendations

The TRT conducts a two-step review of all non-IT capital projects. The first step is a purely technical review of the project scope, budget, and schedule. Based on this review, the TRT may recommend changes to a project to increase its viability. The second step is an assessment of the programmatic goals of a project and relevance to administration policy. The TRT reports its findings to the BRT and makes recommendations regarding which non-IT projects should be included in the CIP. The BRT reviews the recommendations of the TRT and formulates the draft CIP. The BRT's recommendation is then submitted to the Mayor for review, approval and transmittal to the Council.

Step 4: Approval

After reviewing all capital project requests with regard to scope of work, projected cost, and financing alternatives, the BRT evaluates the projects based on their physical attributes, implementing feasibility, and physical/economic impact on the community. The BRT then formulates a recommendation in the form of a CIP. The proposed Capital Improvements Plan is then submitted to the Mayor for approval and inclusion in the proposed budget with subsequent submission to the Council. The Council may make changes, and after Council approval and the Mayor's signature, the CIP is transmitted to Congress for final approval.

Phases of a Capital Project

Capital projects are actually the sum of a series of phases, each of which groups types of tasks necessary to accomplish the project's goal. Other than Information Technology (IT) projects, each project in the CIP is approved and budgeted for five phases. However, in some instances, projects need funding for planned expenditures only in one particular phase, such as major equipment acquisition. The phases are:

- Design (01)
- Site (02)
- Project Management (03)
- Construction (04)
- Equipment (05)
- IT Requirement Development (06)
- IT Development and Testing (07)
- IT Development and Turnout (08)

Phase 1, Design includes all work completed to define the scope and content of the project. Architects and engineers that agencies employ to analyze the planning for a project would be funded from the design phase. Costs associated with solicitations and proposals also fall within this phase. This phase also would be used to fund any processes necessary for selection of contracts.

Phase 2, Site Acquisition covers costs for site preparation expenses, legal work or probable demolition and hauling expenses. Site appraisal and survey also would be funded through this phase.

Phase 3, Project Management pays all internal agency management and support costs from design to construction. Activities within this phase include any work of the project manager and other staff.

Phase 4, Construction includes any construction contract work done by other District agencies. This phase funds work on a particular construction contract.

Phase 5, Equipment funds disbursements for specialized equipment. Equipment funded through capital has to be permanently connected to the physical plant designed as an integral part of the facility. Equipment defined for funding by this phase includes such items as the purchase and installation of elevators, boilers, generators, and HVAC systems. The Capital Program will not fund office equipment or personal computers. These are funded by the operating budget.

Phase 6, IT Requirements Development Phase encompasses both the definition of requirements and design of the system to be implemented. This phase defines requirements and design elements to a level of detail that allows technicians to decide upon development and configuration choices.

Phase 7, IT Development and Testing is the phase in which project requirements and systems design are translated into a working version of the system. This phase also includes all testing stages from unit/component testing through complete systems testing to user acceptance testing.

Phase 8, IT Development and Testing includes all activities to make the system available to all users. During this stage all functions necessary to make the system part of normal user activities is done. For technology systems, turnover means documenting processes and activities necessary to put the system into production.

Project Milestones

Each phase of a project is monitored and tracked using milestone data. This lets the Capital Program determine if projects are being completed on time and within budget. Milestone data is provided by agencies in the annual budget submissions as justification for additional funding.

Milestone data includes such items as project authorization dates, original project cost estimates, contract award dates, revised completion dates, construction start dates and others. In an attempt to summarize the various elements of milestone data, the Capital Program includes status codes in the project description forms.

District of Columbia Water and Sewer Authority - FY 2004 -FY 2013 Capital Improvement Program

Overview

The District of Columbia Water and Sewer Authority (WASA) is an independent agency that provides essential retail water and wastewater services to over 570,000 residents and to businesses in the District of Columbia, and also provides wholesale wastewater conveyance and treatment services to over 1.6 million residents in Prince George's and Montgomery Counties in Maryland and Fairfax and Loudoun Counties in Virginia. WASA is governed by an eleven member, regional Board of Directors, and is responsible for maintaining and operating the water distribution system, sanitary and combined sewage systems, and Blue Plains, the world's largest advanced wastewater treatment plant.

Since WASA's formation in 1996, it has successfully undertaken significant efforts to improve its financial position and operations, a critical part of which has been the development and implementation of a ten-year capital improvement program. The capital program will enable WASA to meet its key goals of providing the best service possible to its retail and wholesale customers, reducing long-term operating costs, and meeting all regulatory requirements.

The Board-adopted ten-year capital program totals $2.1 billion, an increase of approximately $350 million due primarily to the addition of WASA's lead service line replacement program and the approval of WASA's twenty-year Combined Sewer Overflow Long-Term Control Plan (CSO LTCP).

Ten-Year Capital Improvement Program and Financial Plan

Traditionally, the District's Capital Improvement Plan is developed for a six-year period. WASA operates under a regulatory and capital project-driven environment that requires a minimum ten-year planning horizon for capital improvement projects. In addition, WASA annually develops a ten-year financial plan that integrates the impact of the capital improvement program with WASA's board policy goals of maintaining strong bond ratings, implementing rate increases on a gradual and predictable basis, streamlining operations in order to lower operating costs over the next several years, and providing better service to customers.

The development and adherence to a ten-year capital improvement program and ten-year financial plan have been critical factors in the strong bond ratings WASA has received. WASA has also been commended for its strong financing and rate-setting policies, its policy of gradual and predictable rate increases, and its emphasis on long-term financial planning. WASA's "Aa" category bond ratings were reaffirmed by the three major rating agencies in FY 2004.

Capital Financing and Reserve Policies

In order to secure the lowest practical cost of capital to finance WASA's long-term capital program, WASA's board has adopted the following capital financing policies that are integrated into WASA's ten-year plan:

1. WASA will maintain financial practices and policies that result in high quality investment grade bond ratings so as to ensure the lowest practical cost of debt necessary to finance WASA's long-term capital program.
2. WASA will maintain strong levels of operating cash reserves, equivalent to approximately six months of budgeted operations and maintenance costs, calculated on an average daily balance basis. The annual reserve amount will be formally approved by the Board as part of its annual approval of the operating and capital budgets and ten-year plan. The operating reserve will, at a minimum, include any reserve requirements contained in WASA's Master Indenture of Trust as follows, excluding any debt service reserve funds and the rate stabilization fund:
   - Operating Reserve - equivalent to sixty days' operating costs
   - Renewal & Replacement Reserve - $35 million. This reserve requirement will be evaluated every five years by WASA's independent rate consultant in conjunction with the Indenture-required system assessment.
   - District of Columbia General Obligation Debt Reserve - equivalent to ten percent of WASA's share of subsequent year's District general obligation bond debt service
3. WASA will maintain senior debt service coverage of 140 percent, in excess of WASA's Indenture requirement of 120 percent. Senior debt service coverage will be calculated in accordance with WASA's Indentures.
4. In general, WASA will utilize operating cash in excess of the Board's reserve requirement and any other significant one-time cash infusions for capital

financing or for repayment of higher cost debt.

5. WASA will whenever possible use the least costly type of financing for capital projects, based on a careful evaluation of WASA's capital and operating requirements and financial position for each year.
6. WASA will attempt to match the period of debt repayment, in total, with the lives of the assets financed by any such debts.

WASA's capital improvement program is financed from the following sources:

- Revenue Bonds/Commercial Paper - 54%
- Payments from Wholesale Customers - 22%
- Pay-Go Financing (Transfer from Operations) - 8%
- EPA Grants - 15%
- Interest Income on Bond Proceeds - 1%

In FY 2004, WASA successfully issued $295 million of Subordinated Lien Revenue Bonds, Series 2004. These bonds were issued as auction rate securities, and carry floating interest rates. Through the end of January 2005, the simple average interest rate was 1.70 percent, significantly less than fixed rate debt. Based on current capital spending projections, WASA projects that Series 2004 proceeds will last through the first quarter of FY 2006, after which the commercial paper program will be utilized. We expect that the next permanent financing, which we anticipate issuing as senior lien, fixed rate revenue bonds, will be issued in summer 2006.

WASA's capital improvement program totals $2.1 billion over FY 2004 -FY 2013, as described in more detail below.

Wastewater Treatment Program

WASA operates the Blue Plains Advanced Wastewater Treatment Plant, the world's largest advanced wastewater treatment facility. Through Blue Plains, WASA provides wastewater treatment services to over two million people in the Washington metropolitan area. Wastewater treatment includes liquid treatment processing to handle both sanitary wastewater flows and peak storm flows, along with solids processing to treat the residual solids removed in treatment units and produced by the liquid treatment process facilities. Blue Plains is rated for an average flow of 370 million gallons per day (MGD). Capital projects in the Wastewater Treatment area are required to rehabilitate, upgrade or provide new facilities at Blue Plains to ensure that it can reliably meet its National Pollutant Discharge Elimination System (NPDES) permit requirements, produce a consistent, high-quality dewatered solids product for land application, and reduce odors both onsite and in the final product leaving Blue Plains.

Liquids Processing Projects

WASA's ten-year capital improvement plan includes liquids processing projects to upgrade and rehabilitate facilities involved in handling flows for both sanitary and combined sewer systems. These flows move sequentially through the Blue Plains treatment plant processes to ultimate discharge of the treated effluent into the Potomac River. Liquid treatment systems include headworks facilities that screen and pump the wastewater flows, grit facilities that remove sand and grit particles, primary treatment facilities that remove settleable solids by sedimentation, secondary treatment facilities that remove organic pollutants using a biological process, nitrification/denitrification facilities that remove nitrogen using a biological process and effluent filtration, disinfection, and dechlorination facilities.

Solids Processing Projects

Biosolids processing involves reductions in volume along with treatment to meet federal, state, and local requirements, as applicable for the ultimate biosolids disposal method. Treatment is provided by a system of processing facilities that include gravity thickening of primary sludge, floatation thickening of the biological waste sludges produced by the secondary and nitrification/denitrification facilities, digestion of all biosolids streams, and dewatering by centrifuge or belt press and lime stabilization. Dewatered biosolids are conveyed to temporary storage in the Dewatered Sludge Loading Facility, and in the near future, will be conveyed to the silo sludge loading station currently under construction, prior to outloading to tractor-trailers for removal from the plant and ultimate land application. Solids processing facilities are required to produce a biosolids product that can be reused or disposed of in an economical and environmentally acceptable manner. The single largest capital project at Blue Plains is construction of the new digestesr, totaling $311 million. Construction of these eight egg-shaped digesters will begin in 2005, and when fully operational, will result in significant operating cost savings both in biosolids hauling and power costs. Other major projects in this area include the upgrade of existing gravity thickening facilities, replacement of biological sludge thickening facilities, and the construction of additional dewatering capacity.

Plant-Wide Projects

Several significant plant-wide projects are included in WASA's capital plan. Two projects address chemical handling and feed systems, which have presented operating and safety concerns to WASA for a number of years. These include replacing the outdated lime feed facilities at Blue Plains with a sodium hydroxide storage and feed facility, which began operation in FY 2002. The project to permanently replace the liquid/gaseous chlorine and sulfur dioxide dechlorination process with sodium hypochlorite for disinfection and sodium bisulfite for dechlorination was operational at the end of calendar year 2003.

A new process control and computer system will allow for automation of a significant number of processes at Blue Plains, leading to better management of chemical usage and, ultimately, less staffing. In addition, the new system will allow better management of electricity consumption, minimizing peak demand usage and related charges. The system will be implemented in three phases, beginning with the grit chambers, primary and secondary treatment, and dewatering processes, and then moving to nitrification, filtration, disinfection, and solids processing. Construction began in FY 2002.

As part of the plant-wide capital improvement program, the high priority rehabilitation program has been developed to provide for various process equipment upgrades and replacement, insuring the reliability of critical equipment while the capital improvement program is implemented.

Sanitary Sewer Program

WASA is responsible for wastewater collection and transmission in the District of Columbia, including operation and maintenance of the sanitary sewer system. The District's sanitary, combined and storm sewer system includes 1,800 miles of large interceptor sewer and smaller gravity collection sewers as well as twenty-four pumping stations. WASA is also responsible for sewer lateral connections from mains to the property lines of homes, government and commercial properties. In addition, WASA is responsible for the 50-mile long Potomac Interceptor sewer, which provides conveyance of wastewater from areas in Virginia and Maryland to Blue Plains.

The existing sewer system dates back to 1810. In 2004, WASA began a comprehensive evaluation of this system to determine its condition, verify adequate capacity, and to develop new capital projects, as appropriate.

In general, projects in the existing sanitary sewer service area program provide for replacement or rehabilitation of the system as well as extensions to the system for development and growth as needed. As in prior years' programs, the substantial costs of street repaving due to the new street repair and restoration regulations required of WASA and other area utilities by the District are reflected.

Combined Sewer Program

Similar to many other older communities in the Mid-Atlantic, Northeast and Midwest sections of the country, approximately one-third of the District of Columbia, mostly the downtown and older parts of the city, is served by a combined sewer system. A combined sewer system merges the transportation of both stormwater and wastewater within one system. In wet weather, storm water also enters the system and if the physical conveyance capacity of the system is exceeded, the excess flow is discharged to area waterways. This discharge is called combined sewer overflow (CSO). There are sixty permitted CSO outfalls in the District.

In December 2004, WASA reached agreement with the environmental plaintiffs, the U.S. Environmental Protection Agency, and the U.S. Department of Justice on the CSO LTCP, a major milestone in WASA and the District's history. Specifically, the Board entered into a consent decree that outlines a twenty-year, $1.9 billion implementation plan and schedule, making this one of the largest infrastructure projects ever in the Washington metropolitan area.

The benefits of the CSO LTCP are great -- when fully implemented, CSO overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality and less debris on our national capital's waterways. The plan, described in more detail on WASA's web site at www.dcwasa.com, includes a variety of improvements planned throughout the District to improve the quality of the Anacostia and Potomac Rivers and Rock Creek:

- Three large storage tunnels, which will allow the storage of flows from storm events until they can be gradually sent to Blue Plains for advanced treatment
- Pumping station improvements
- Targeted separation of combined sewers in several sections of the District to include Anacostia
- Consolidation and elimination of 13 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for low impact development (LID) at WASA

facilities and to encourage LID across the District

Because of the considerable cost of this program, the impact on WASA ratepayers is significant . However, because projected spending under the CSO LTCP is somewhat back-loaded, the near-term impact on rates is mitigated. WASA is working to secure as much federal financing as possible, and WASA has already received $84 million. Assuming no additional federal assistance, at the end of the twenty-year implementation period, the typical residential customer's monthly wastewater bill is projected to be $110, an increase of 325 percent over the current monthly wastewater bill of $26.

Stormwater Program

WASA is responsible for the maintenance of certain public facilities that convey stormwater runoff to the Anacostia and Potomac Rivers and other receiving streams. The stormwater system includes approximately 600 miles of storm sewer pipes, catch basins, inlets, special structures, pumping stations and related facilities. The existing storm sewer system dates back to the early 1900s and includes a variety of materials. Projects include extensions to the system, relief of certain storm sewers, as well as projects to rehabilitate or replace storm sewer systems that have experienced structural deterioration.

The District of Columbia was issued its first stormwater permit in April 2000. Subsequent to receipt of the permit, the District of Columbia Council enacted legislation that established a stormwater administration within WASA to monitor and coordinate permit compliance citywide and established a stormwater enterprise fund and separate to finance these activities. In addition, WASA has entered into a memorandum of understanding (MOU) with the District Departments of Health, Public Works and Transportation and the Office of the Chief Financial Officer that delineates the administrative and funding responsibilities for this effort. A stormwater management fee (authorized by the District of Columbia and which appears on WASA's water and sewer bill) funds the incremental operating requirements of the permit and it is anticipated that future adjustments of this fee will be required.

The primary activity over the next two years will be developing an implementation plan for the District's new five-year stormwater permit, issued by the EPA in August 2004. The new permit requires implementation of several new programs that have been in the planning phases for the last few years, including illicit connection detection and enforcement programs and industrial facility outreach programs, among others. The new permit also requires compliance with the total maximum daily load (TMDL) of pollutant reduction requirement allocated to stormwater by the District's Department of Health. The reduction requirement for various pollutants (e.g., nutrients, toxics, oil & grease, sediment) is as high as 90 percent in some cases. This is a difficult task because of the limited technology available for such pollution control from diffuse sources, limitation of space in a densely urban area, and associated costs. The participating agencies are in the process of developing cost estimates for compliance with the new permit, including potential new capital costs.

Water System Program

The water distribution system operated and maintained by WASA includes almost 1,300 miles of water mains (ranging in size from four to 78 inches in diameter), three elevated water storage tanks, five underground water storage reservoirs, and four water-pumping stations. The water distribution system also includes appurtenances necessary for proper system operation, inspection, and repair, such a main line valves at regular intervals to allow flow control; air release valves to prevent air entrapment; blowoff valves for draining water mains; check valves to permit flow in one direction only; division valves to allow transfer of water between service areas during emergencies; fire hydrants; and meters.

The single largest program in the water area is WASA's $300 million lead service line replacement program. This program will replace the publicly-owned portion of all lead service lines in the District in approximately six years. In FY 2005, WASA plans to replace 2,800 service lines, in excess of EPA requirements. More information on WASA's lead program can be found at www.dcwasa.com

Other projects include rehabilitation/replacement of water pumping stations, and several water quality projects, including dead end elimination, water main rehab and replacement, and valve replacement.

Metering Improvements

WASA has begun its automated meter reading and meter change-out program, which entails the replacement of the approximately 124,000 meters currently in the system. The new meters will automatically transmit consumption data to WASA's computers via cellular technology. The AMR program is over 95 percent complete, and has been critical to achieving IIP goals in the

Customer Service Department and reducing meter reading costs while improving service to customers.

Washington Aqueduct

WASA's share of improvements to the Washington Aqueduct facilities reflected in the CIP totals $127 million. As the largest of the three wholesale customers of the Aqueduct, WASA is responsible for approximately 75 percent of the funding for the Aqueduct's capital projects. This percentage is based on WASA's percentage of the Aqueduct's total water sales. Over the past three years, the Aqueduct has completed a variety of capital projects, including the conversion from chlorine to chloramines for primary disinfection, rehabilitation of the raw water conduits from the Potomac; and various improvements to the McMillan and Dalecarlia Treatment Plants.

Capital Equipment

WASA's ten-year capital equipment budget totals $84 million. As in past years, the largest area of expenditure is in the area of technology infrastructure, representing more than 52 percent of the ten-year plan. Near-term plans include implementation of new asset management and document management systems, upgrading WASA's network environment, and replacing personal computing equipment. Capital maintenance of pumps, large motors, and other major equipment at Blue Plains and by sewage pumping stations is budgeted at approximately $14 million, approximately 16 percent of disbursements, over the next ten years, and approximately 13 percent of the budget is for ongoing fleet upgrades. Other projects included in the capital equipment program include various ongoing small valve, fire hydrant, and catch basin replacements.

FY 2006 Congressional Capital Authority Request

As part of WASA's enabling legislation, Congressional appropriations authority is required before any capital design or construction contract can be entered into. WASA's FY 2006 request totals $530 million, and reflects the following:

Fiscal Year 2006 Capital Authority Request
($000's)

Program Areas	Fiscal Year 2006 Capital Authority Request
Blue Plains Wastewater Treatment	120,130
Sanitary Sewer System	21,485
Combined Sewer Projects	107,146
Stormwater [1]	0
Water System	224,634
Washington Aqueduct (WASA share)	34,463
Capital Equipment	22,136
Total	529,994

[1] The Stormwater projects' authority request is zero, as, existing (currently available) capital authority in this service area is in excess of projected commitments in FY 2005, FY 2006, and FY 2007.